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Report of the Administrator

Addendum

Proposed amendments to the UNDP Financial Regulations and Rules

SUMMARY

In the present addendum, the Administrator proposes amendments to the Financial Regulations, in order to enhance the coordination and mobilization of resources by UNDP from non-governmental sources, as well as to enable UNDP to operate a viable micro-capital grant programme in furtherance of its mission and goals.

Chapter IV of the present document contains a recommendation for Executive Board action.

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I. PURPOSE

1. As part of the continual review by UNDP of its Financial Regulations and Rules, the Administrator proposes that amendments be introduced to the Financial Regulations in order to enhance the coordination and mobilization of resources by UNDP from non-governmental sources, as well as to enable UNDP to operate a viable micro-capital grant programme in furtherance of its mission and goals. These changes are a first and temporary measure, to be followed by a complete revision of the UNDP Financial Regulations and Rules to be presented to the Executive Board in 1997.

II. RESOURCE MOBILIZATION FROM NON-GOVERNMENTAL SOURCES

2. The legal basis for the acceptance by UNDP of donations from non-governmental sources can be traced to the mandate provided to the predecessor of UNDP, the Special Fund. The Special Fund was established by the General Assembly to provide new administrative and operational machinery to spearhead the enlargement of the scope of United Nations technical assistance and, in particular, to "... facilitate new capital investments of all types - private and public, national and international - by creating conditions which would make such investments either feasible for more effective" (General Assembly resolution 1219 (XII) on the financing of economic development, dated 14 December 1957). The Special Fund was further authorized in 1958 to specifically receive donations from non-governmental sources (General Assembly resolution 1240 (XIII) of 14 October 1958). When UNDP was formed in 1965, the General Assembly stipulated that the special characteristics of the Special Fund were to be maintained (General Assembly resolution 2029 (XX) of 22 November 1965).

3. On the basis of the legislative authority granted by the General Assembly, provisions for the receipt of donations from non-governmental sources were included in UNDP Financial Regulations 4.14 through 4.16. Regulation 4.14 permits receipt of donations for purposes consistent with those of UNDP. Regulation 4.15 permits donations of cash to be used for general purposes, or specific purposes, through the cost-sharing or trust fund modalities. Regulation 4.16 requires that donations of a value in excess of $25,000 shall be accepted only with the prior approval of the Executive Board.

4. UNDP has broadened its resource mobilization strategy to encompass the greater involvement of non-governmental sources with UNDP and its activities. To effectively and efficiently mobilize such resources, a revision to the Financial Regulations is required. Given the rapid pace at which funding from non-governmental sources occurs the current requirement for prior approval of the Executive Board for donations of a value in excess of $25,000 is not practical; nor is there any real need to involve the Executive Board in prior review and approval, when regular reporting provides an adequate basis for monitoring. The need for a rapid response is especially necessary when the time-frame for programme activities dependent upon a potential donation would not permit the matter to be approved at a regular session of the Executive Board. The Executive Board will recall that in June 1996 UNDP issued, by means

of a note verbale, a request for approval by the Executive Board for UNDP to receive an in-kind donation valued at approximately $1 million for the UNDP Sustainable Development Networking Programme.

5. A comparative review by UNDP has identified that the United Nations Population Fund is required to obtain prior approval of the Executive Board for donations in excess of $100,000. The United Nations Children's Fund, however, operates without a requirement for prior approval, but does require annual reporting. The Administrator believes that for reasons of administrative costs associated with receipt of such donations, UNDP would generally seek donations from non-governmental sources in excess of $100,000. For this reason as well as for the reasons stated in paragraph 3 above, UNDP does not consider a financial level for prior Executive Board approval to be practical or necessary.

6. Lessons learned from the successes in private sector fund-raising for special events to celebrate the fiftieth anniversary of the United Nations are being applied by UNDP in the development of guidelines for the receipt of donations from non-governmental sources. UNDP is putting in place all the necessary elements to ensure that:

(a) UNDP associates only with non-governmental sources that are apolitical and support the aims and objectives of the programme;

(b) UNDP has a system of checks and balances to ensure that sources of funding are appropriate for the activities to be funded, particularly with regard to funding sources in the private sector;

(c) The resources mobilized do not jeopardize the universal character of UNDP activities;

(d) Once received, donations will be managed by UNDP, in accordance with the Financial Regulations and Rules governing the programming of UNDP resources.

7. In order to achieve the above-mentioned objectives, the Administrator proposes that the Executive Board approve changes to the Financial Regulations which eliminate the definition of "donation" and expand the definition of "contribution" to encompass cash and in-kind assistance from non-governmental sources. Such changes would serve to simplify operational regulations and rules for programming resources. In addition, the Administrator proposes to eliminate the requirement for prior approval of the Executive Board and replace it with a full annual reporting requirement to provide the Board with sufficient information for it to assess the amounts and impact of non-governmental contributions on the programme.

8. Upon the foregoing, the Administrator proposes the following textual changes:

(Note: deletions are in brackets [ ] and insertions are <u>underlined</u>.)

Regulation 2.2 C (iii)

"contribution" shall mean cash or in-kind assistance provided by a Government, by a governmental or intergovernmental institution or agency not part of the United Nations system, or by non-governmental sources, including civil society organizations and entities from the private sector, as well as from individuals. Contributions cover programme costs as well as programme support and administrative services, including costs associated with the administration of contributions received for special purposes;

Financial Regulations 2.2 C (iii)-(vi) are consequently renumbered.

Regulation 4.11

Contributions other than those indicated in Financial Regulation 4.1 may be accepted by the Administrator and utilized for the general support of UNDP or for specific purposes consistent with those of UNDP.

Regulation 4.12

Where the purpose of the contribution is the general support of UNDP and no limitations are imposed by the contributor as to its use, the monies or in-kind provisions received shall be credited to the UNDP Account, as defined in Regulation 2.2 U (i). Contributions proposed for specific purposes shall be treated under the provisions for cost-sharing of Article IV, under the provisions for trust funds of Article V, or as extrabudgetary income to be allocated by UNDP under the provisions for the biennial budget of Article IX, as appropriate.

Regulation 4.13

The Administrator shall report annually to the Executive Board on contributions received from non-governmental sources.

Current Regulations 4.11-4.13 are to be renumbered as 4.14-4.16.

Current Regulations 4.14-4.16 are to be deleted.

Regulation 5.3

"Contributions [or donations], other than those identified under Article IV, which are accepted for purposes specified by a donor shall be treated as trust funds".

Delete Financial Rule 105.6.

III. MICRO-CAPITAL GRANTS

9. In its decision 90/15 of 22 June 1990, the Governing Council authorized the use of programme resources by UNDP for micro-capital assistance. In its decision 94/28 of 10 October 1994, the Executive Board approved inclusion of the micro-capital grant in the UNDP Financial Regulations. Financial Regulation 2.2 M (i) limits any one grant to $50,000.

10. The Administrator requests a revision of Financial Regulation 2.2 M (i) to allow for a maximum of $150,000 per grant. This change will enable UNDP to develop a viable programme to support micro-credit activities, and in particular, start-up programmes with a range of institutions able to reach the poor.

11. In the six years since the Governing Council endorsed the concept of micro-capital grants, experience has demonstrated that a $50,000 grant is not large enough to initiate effective micro-credit activities. Consequently, UNDP has invested little in this activity thus far. Micro-credit activities continue to gain in importance as an effective tool for poverty reduction and UNDP is uniquely placed by its mandate, global country office network and access to international expertise to play a significant role in its implementation. The micro-capital grant is the principal modality in UNDP for supporting credit activities, and in consultations with donors and practitioners, UNDP has been encouraged to increase the limit to the proposed level.

12. Upon the foregoing, the Administrator proposes the following textual change:

(Note: deletions are in brackets [ ] and additions are underlined.)

Regulation 2.2 M (i)

"Micro-capital grant shall mean the financial assistance provided to an intermediary [,] which includes non-governmental or grass-roots organizations, in an amount not exceeding [$50,000] $150,000 for each individual grant."

IV. EXECUTIVE BOARD ACTION

13. The Executive Board may wish to:

1. Note the intention of the Administrator to expand the resource base for programmable activities by seeking more aggressively resources from non-governmental sources;

2. Approve the changes to the Financial Regulations as proposed in paragraph 8 of addendum 4 of the report of the Administrator on the annual review of the financial situation, 1995 (DP/1996/28/Add.4);

3. Requests the Administrator to keep the Executive Board apprised of the status of the resource mobilization initiative from non-governmental sources;

4. Approve the changes to Financial Regulation 2.2 M (i), as proposed in paragraph 12 of addendum 4 of the report of the Administrator on the annual review of the financial situation, 1995 (DP/1996/28/Add.4).